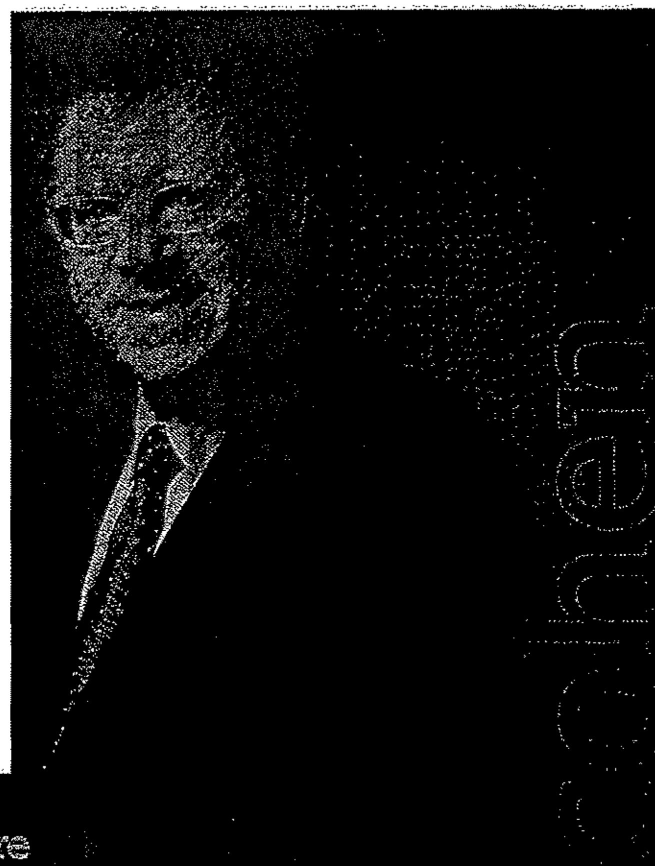
What prompted you to start your own company?

Steers: With our first fund, we couldn't raise any money. The wholesalers didn't know what to do with it. They would use it to get into offices, but at the time government bond funds were selling like hotcakes. We realized that nobody had done it before, so we had tremendous missionary work to do. We had to focus on this alone. We had to prepare for an extensive amount of education before any significant assets would roll in. We believed that we had to start a firm that didn't need to sell other things as well.

What finally prompted you to go public, especially given the recent increased regulatory environment?

Cohen: Every private company reaches a point where it needs to decide where it wants to go when it reaches a certain critical mass. Bob and I decided we wanted to continue to grow the company in a world that is competitive with respect to people, and where equity ownership is the key to attracting and retaining people. Having a currency to do that was very important. We've got all the traditional forms of financing available: debt, equity and cash. We also wanted a succession plan in place, and to provide investors abroad with a transparent platform.



You have made several moves to expand your company's holdings and sales overseas—why now?

Cohen: The international securitized real estate market is bigger than the market in the United States. There is no reason to believe there isn't as much growth potential outside the United States as there has been within.

Steers: Three or four years ago we saw that the international market was similar to the United States before it took off in the early 1990s. We worked very hard at creating what we think is one of the largest, most geographically diverse and focused teams in the world today. We are dedicated to maintaining that industry-leading organization.

> You are going to see, even without REIT legislation, more companies in Germany, Spain and Italy going public.

What have been the biggest challenges with overseas expansion?

Cohen: To accommodate that growth as a public company has required a tremendous investment in infrastructure—in both people and locations. We opened offices in Hong Kong, London and Brussels, which were all very significant undertakings. The legal, financial and administrative support for those were major undertakings. I think we can say with confidence at this point that we have succeeded on all of those fronts. Having all these expanded capabilities in place, we now have to sell them. We essentially have completed the build out of our retail and institutional sales forces. Now the jury is out. So far, our inflows are good.

How has expanding internationally changed the way your company operates?

Cohen: We spend more time in Europe and Asia. With our global investment team, someone is always at a time disadvantage with a phone call, so we have learned to maintain flexible hours.

However, thinking globally is a mindset that really is quite different. Because you are looking at many countries, you're looking at different economies, cultures, political systems, etc. It has changed our thinking about how we run our company and what we do. Having a global economic perspective makes us better investors.

We are just one piece of a much larger global economy, and we have holdings in many U.S. companies that are investing overseas. They too are seeing opportunities to build and buy buildings, and we have had very substantial investments in them. So we need to know what is happening outside the U.S. just to be better investors in U.S. companies.

How reliant are you on REIT-like structures in expanding your portfolios overseas?

Cohen: The REIT is a great vehicle, and that is certainly spurring interest. But it goes further than that—it is public market real estate companies. You are going to see, even without REIT

legislation, more companies in Germany, Spain and Italy going public. The REIT accommodates investors very well, but you don't have to see universal acceptance of REITs by governments for this global securitization wave to continue to grow. The key is accessing capital markets to grow your real estate portfolio.

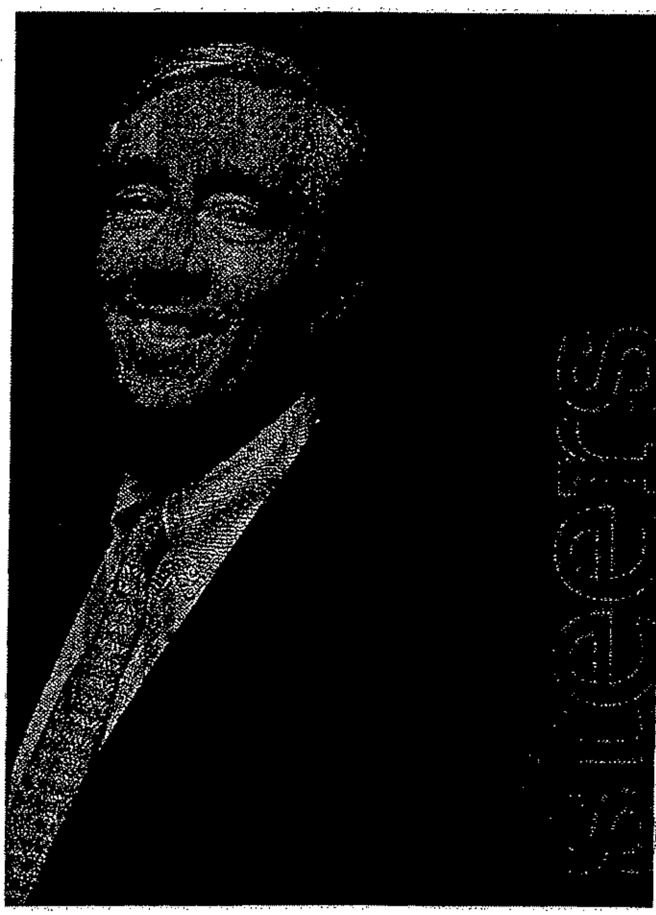
Your annual report says, "Finding value is the foundation of professional investment management...an ideal way to invest in real estate markets worldwide." How do you find value overseas, given the wide variety of markets?

Cohen: That is one of the biggest challenges—comparing a shopping center in France to an office building in Singapore.

Steers: It starts with having local employees in these markets that understand how to value local real estate. You own real estate for cash flow purposes. Yet you need to have your local presence say, "You don't even want to look over there. This person's not reputable." You need that insider's view. You can't get that by just sitting in New York.

How about U.S. REITs—with all of the price increases, how much more room is there for appreciation?

Cohen: REITs are trading right around net asset value. What people have not realized is that the replacement cost of these properties has soared. Think about copper, lumber, concrete and steel—plus finding good locations, which is almost impossible. The values of these buildings are much greater than they ever were. What you will see, and the part of the puzzle that investors and commentators are missing, is that we are in the rent cycle now when rents are moving up.



In the United States, REITs are frequently losing out to private funds in property bids. What does this mean for REITs' ability to compete?

Steers: I wouldn't call it a disadvantage. Public companies have a discipline imposed on them by their shareholders that has resulted in buying at the right time, selling at the right time. When you say private guys can overpay, or pay higher—the good news is they get the portfolio. The question is, if REITs are not willing to bid as high as they are—since they are required to have rational return expectations that are tied to their cost of capital—then is it really a victory? Some of these private guys are willing to lever things up more than a public company is allowed, but time will tell whether that is a good strategy or not.

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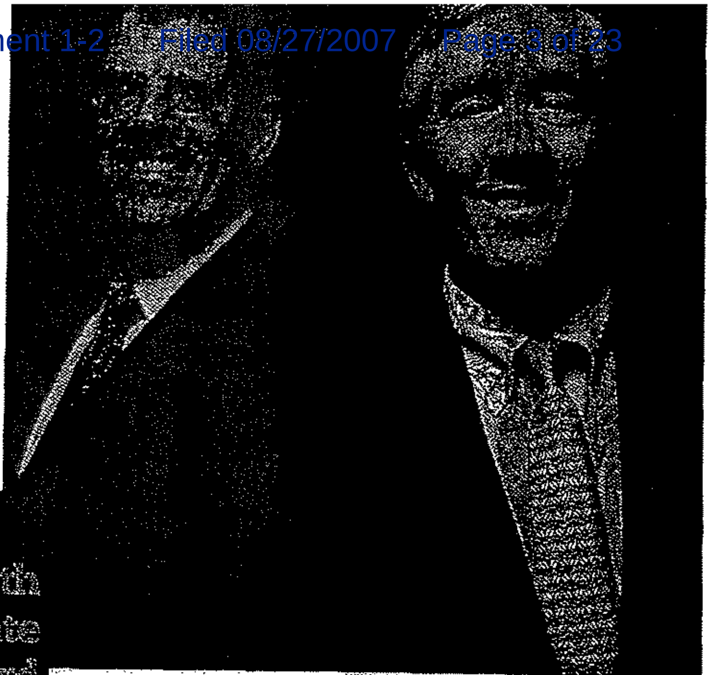
Your annual report also notes, "We continued to diversify the assets that we manage. Our non-U.S. REIT assets increased 30 percent to $6.2 billion last year, representing 30.2 percent of your assets under management at year-end." Why diversify now?

Steers: It's like a lot of things that we have done over the years. Since starting our company, a lot of the best things we have done were born out of opportunity. We didn't do them all at once, we did them sequentially. It took a lot of time because we had such stiff criteria for the quality of the team and track records that came with them.

In terms of asset classes outside of real estate, why did you choose to pursue dividend-oriented equities such as preferred stock, utilities, and large-cap value?

Steers: We asked ourselves what other investment strategies have similar investment characteristics and lend themselves to our analysis. Five years ago, we saw the traditional market buckets—such as large cap growth—were on the wane and dividend oriented strategies were coming into favor. It's demographics, the low return environment and the change in the tax code. With REITs, more than 70 percent of our returns over the past 20 years—returns in the mid-teens—are just collecting dividends and reinvesting them. These types of strategies are going to be in big demand for a decade probably.



How do you succeed in today's real estate investment market, especially when stock premiums are relatively high?

Steers: Everything we have added is based on the premise that there's over-capacity of virtually every type of investment product. Unless you have a true value add, and you have consistent, substantial alpha generation, then you don't have anything. In the 1980s and 1990s, there were plenty of powerful organizations that raised a lot of money with mediocre product. We believe that going forward, good distribution is not going to compensate for bad product.

What was the investing climate like when you managed the first real estate mutual fund at National Securities two decades ago? How was the market different then?

Cohen: Pension funds and institutions were buying buildings, and individuals were buying limited partnerships. So REITs and public real estate companies really didn't make a lot of sense to them.

Steers: Other than Marty and I, nobody really knew what a real estate mutual fund was—or cared about it. What we found was that National Securities had 10 or 11 wholesalers, and our first REIT fund was a retail product. They loved having a product that nobody else had because it got them in doors they couldn't get into. However, once they were in, it was labor intensive. No one had ever talked about it, especially in real estate circles. You were laughed out of the room.

There also was resistance by endowments and pension funds. They had created large staffs to do direct property investment, so our concept threatened job security. If securitization replaces direct property because the returns are higher, then you don't need to have a staff.

> We both gravitate toward getting the job done. Two heads are better than one. We have never had a period where there is a problem we can't solve.

What events in your career shaped your investing philosophy of today?

Cohen: I went to business school and was lucky enough to get a job at Citibank as a securities analyst. I didn't know anything about real estate. But as I learned about the industry, I saw it as a very interesting asset class because of the cash flow characteristics. I found it strange that people shied away from REITs because they thought REITs were too complicated and hard to understand. I thought just the opposite. They were easy to understand. It's a building and it's got a balance sheet that's got debt and equity and there's cash flow.

Steers: At Citibank, I started out as a securities analyst, and I was following GE and Westinghouse and was more growth-stock oriented. At National, I was managing the growth money there, and when the new company took over, they made me chief investment officer. I had seen the work that Marty had been doing and started the bank's first commingled fund to invest in real estate stocks. My experience was more macro.

How do you find the right talent, especially those who culturally fit in your organization?

Cohen: The single thing we have spent the most time on is interviewing potential employees. You have to meet people and you have to spend time with them. It's a people business. You just can't pick them off the shelf; you have got to get to know them.

No doubt it's unusual to see a co-CEO arrangement work so well as yours. What is the secret to your success?

Cohen: We both gravitate toward getting the job done. Two heads are better than one. We have never had a period where there is a problem we can't solve. One of us might not be able to solve it, but the two of us together have been able to do that.

Steers: I think both of us have the same high standards and values. We respect each other. Everything we do here is built on disagreeing and on give and take. We need the right chemistry. We've all got egos, so check them at the door when you walk into the investment committee meeting. You respect each other enough to agree to an outcome that everyone can live with. ✦

Charles Keenan is a regular contributor to Portfolio.

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Interview With Marty Cohen
Co-Chief Executive, Cohen & Steers

REITs' Still-Rosy Outlook

by Sandra Ward

REAL-ESTATE INVESTMENT TRUSTS HAVE been the asset class that hasn't quit. No one knows that better than Marty Cohen, who, with partner Bob Steers, has built the $23 billion empire that is Cohen & Steers (ticker: CNS) on the strength of REITs and the firm's ability to consistently outperform the benchmarks. Another big factor in Cohen & Steers' success is its focus on total-return strategies that include income-oriented investments like utilities and other high-yielding stocks. As the 'Nineties was the decade when REITs came into their own in the U.S.—and proved to be one of the best investments for the past six years—this is the decade the REIT concept is taking hold in Europe and Asia. That's where these two veterans spy the best opportunities and expect the best returns. We'll let Marty explain.

Barron's: When we spoke a year ago, the performance of real-estate investment trusts seemed to be defying all sorts of conventional wisdom, and they've continued to perform well. What's the explanation?

Cohen: Then, my emphasis was on the phenomenon of replacement cost, where the rents you have to charge to justify new construction in the office sector were at levels that were way above market, and that's why there hasn't been a lot of new construction. I've never seen an economic cycle like this, where you've had strong growth for several years and you haven't had a lot of buildings coming out of the ground. That may happen, but only when rents get to a level that can justify new construction.

Ken Schles for Barron's

"Real estate is so well-positioned today that it is attracting a lot of capital from individuals, institutions, private equity funds. The ability to buy big portfolios is very attractive." Marty Cohen

(over please)

billion. That's about $550 billion of market cap of publicly traded real-estate companies outside the U.S., a very rich universe of companies to choose from.

Do the fundamentals support real-estate growth in Europe and Asia?

We think what happened in the U.S. in real estate in the 1990s is happening overseas today. In the 1990s, we weren't in the midst of a strong real-estate market. On the contrary, there was a lot of consolidation and rationalization of real estate. However, REITs became a dominant form of ownership. They were buying properties. They were expanding their portfolios. They were using their debt and equity-raising capabilities in the public market to make very good acquisitions. So you had double-digit earnings growth for U.S. REITs in an environment that was not growing at a double-digit pace. That's why REITs did well in the 'Nineties.

The European economies are not growing as quickly as the U.S. and Asia, but there are a lot of new real- estate companies being formed and a lot of existing real-estate companies that are expanding.

In Europe, countries like France, Belgium and the Netherlands already have REITs.

The U.K. has introduced legislation that will enable REITs to exist in that country in 2007. That will enable most of the U.K. public real-estate companies to convert to a REIT structure, and most have announced their intentions to do that once that law goes into affect. They will then raise their dividends pretty dramatically, in some cases.

There is a strong likelihood REITs will be introduced in Germany, the world's third-largest economy, in the next 12 months. Then you will have the two largest economies in Europe with REIT structures and with publicly traded real-estate companies that are substantial. The $200 billion market cap in Europe could potentially double.

How about Asia?

REITs exist all over Asia, with Hong Kong the largest market. And by the way, the Hong Kong office market is as hot or hotter than New York City, and rents there have doubled in the past couple of years. Their leases tend to be shorter—about three years—so they get rent increases much more quickly. There is tremendous demand for real estate to accommodate the growth coming out of China, of which Hong Kong is a direct beneficiary, but Singapore, South Korea and Japan also benefit.

Japan, the second-largest economy in the world, is for the first time in many years experiencing positive and potentially sustainable growth, and that will be very, very positive for Japan's real-estate markets. One of the companies we have a strong interest in is **Mitsubishi Estate**, which has a tremendous amount of existing space and development rights in the Marunouchi district in Tokyo, where the vacancy rate is essentially zero. It is a very large company and extremely well-managed, with vast holdings that are well-located. Their development rights almost assure they will have continued growth, not just from increased rents in what they own but from building new properties, as well.

What if China slows?

My biggest fear is that China slows, and eventually it should. If you had to choose a year for that to happen, 2009 is as good as any because in 2008 the Olympics will be held in Beijing. Once all the building and attention is over, history has shown, the year after an Olympics the host countries tend to experience some slowdown in their economic growth.

Our research people in China tend to believe the rise of the middle class in China will far eclipse any possible slowdown. Domestic consumption is now growing quite strongly in China. If we are creating a million and a half to two million jobs in the U.S. with a 3% economic growth rate, then how many jobs are being created in China, which is approaching double-digit economic growth with a billion and a half people?

On the domestic front, what are some of your favorite REIT investments?

REIT prices are near record highs, and it is very hard for me to pick a sector that isn't already somewhat exploited. The U.S. REIT market is at an equilibrium where the stocks are trading around their net asset values. Stock prices will fluctuate in a narrow band around their NAV, or the underlying value of the properties they own.

Is there any sector that stands out though?

One sector that stands out is the hotel sector. We have seen an unprecedented increase in so-called revpar, or revenue per available room. There were big increases year-over-year in revpar after 9/11, but we are so past 9/11 and we are seeing continued increase in room rates and occupancies, on the order of 10% on average. That's in the midst of an economic slowdown, if you will. If the Fed is successful in avoiding a recession and if you believe as we do there will be continued growth and an acceleration of that growth in 2007 and beyond, then the hotel industry seems extremely well positioned. The stocks have corrected in the last few months and are well below their highs.

There are three companies that stand out, but only one of them is a REIT. **Starwood Hotels & Resorts Worldwide**, which used to be a REIT, has a tremendous amount of liquidity and growth potential. **Hilton Hotels** has been very effective in repositioning the company both domestically and internationally. It also has a tremendous amount of liquidity. A third stock, which is a REIT, **Strategic Hotels & Resorts**. They are not very well known, but they own some pretty interesting resort properties, like the Four Seasons near Puerto Vallarta in Mexico, and a very good hotel in Paris, and they've been acquiring properties aggressively in the past year or two. That has required them to issue a lot of equity and has put pressure on their stock, but they are finished issuing equity and they should show better growth in earnings and dividends because of the acquisitions.

What's driving the growth?

What you are seeing in hotels is the same thing you are seeing in the office sector, but you are seeing it daily. Room rates are being raised, and most business people are totally indifferent. The ability to raise rates is something that is creating massive increases in profitability, particularly with respect to Hilton and Starwood.

Do you have more picks on the international side?

The pricing is not dissimilar to what we are seeing in the U.S. Globalization is creating a tighter range of valuations around the world. Investors like us and our competitors are looking outside for the best values, and that's contributed to a tighter range of price to net asset value. But the key is rising net asset values.

Two companies we like in the U.K. are **British Land**, a very London-centric office owner, and **Great Portland Estates**. British Land has a $14 billion market cap

That's where we are today versus a year ago: the rent-growth part of the cycle. We are in a period where supply has remained steady over the years, demand has continued to increase, and now that there is a reduction in vacancy rates, landlords can charge more rent. Leases that are renewed will be at a much higher rate.

There is never 100% flow-through to profits, but there is a substantial flow-through from increased rents to increase profits, because the operating costs of the building don't change much. That's why the office market has been on fire. People are wondering how someone could buy an office building at a 4% cap rate [a capitalization rate is the net rental income divided by the purchase price], but that's only with respect to current rents. Prospectively, those rents are going to go much higher, and buyers today are anticipating much higher rents as leases turn over. Think of the cap rate as the inverse of a price-earnings ratio, where a 4% cap rate would be similar to a 25 P/E. The incremental rent that landlords will be earning will be very, very profitable.

You're talking about office buildings. Is this happening in other sectors of the REIT market?

There is a similar situation in multifamily, although the rents tend to change more regularly in that sector than in the office sector. In most high-quality multifamily projects, the cost of construction has increased and vacancy rates are pretty low around the country, as there has been a propensity to rent rather than own a home because of affordability issues. It is a landlord's market there, too.

Is this leading to new construction?

Eventually, it must lead to more building. One, there is going to be demand for space as the economy continues to grow. And if you are a business and need space, you'll have to build because you can't find it. Also, developers build when they see there's sufficient demand and when they can earn a respectable return on their investment. That's when there will be speculative building. That's two or three years away.

Yet a lot of people think the economy is slowing.

If a client of ours were to ask what is going to happen if the economy slows down, I would say growth in real-estate values and profits will slow down as well.

Marty Cohen's Picks

Company	Ticker	Recent Price
Starwood Hotels & Resorts	HOT	$51.77
Hilton Hotels	HLT	24.35
Strategic Hotels & Resorts	BEE	19.85
British Land	BLND LN	1344.00 pence
Great Portland Estates	GPOR LN	552.50 pence
Mitsubishi Estate	8802 JP	¥2475
Hongkong Land	HKL SP	$3.86

Source: Bloomberg

But that might be the least of your problems, because most investments are going to do poorly in a poor economy, except bonds.

If you're investing in income-oriented stocks, you have got a better chance of doing well. We believe the economy is in the midst of a slowdown, and the Fed has recognized that by not raising rates again. But I don't think there are signs of a recession, and clearly the Fed easing is going to improve the probability that we won't have a recession.

The soft-landing scenario.

Either a soft landing or no landing. We'll just keep cruising at 2% to 3% economic growth. That's an ideal environment for real estate, because the fundamentals can continue to improve. Interest rates remain low, so real estate remains a competitive investment.

Why else have REITs continued to do well?

All the buyouts and takeovers. If anything, that trend has accelerated in the past year. In two years, we've lost about $80 billion of market cap or enterprise value to either privatizations, liquidations or mergers. I would not have predicted this massive consolidation. The extent of privatization activity has been extraordinary. One reason for it is that in a low-return environment, capital gravitates to where it can get the best returns. Real estate is so well-positioned today that it is attracting a lot of capital from individuals, institutions, private equity funds.

The ability to buy big portfolios, even if you are paying close to net asset value, is very attractive. If you can buy $4 billion of properties in one swallow, that's more desirable than buying them one at a time over a two-year period—because by the time you would finish buying them, the risk is that prices could have risen.

Buying something at or near its net asset value and managing the portfolio by cutting costs, selling and redeveloping can generate a very big return. And these funds typically employ a great deal of leverage, so if interest rates stay low and go lower, there should be no abatement of that activity because they can use leverage. Private-equity funds can use more leverage than public companies.

So demand is exceeding supply?

That is why we are seeing REITs up 20% this year. A lot of the companies that have been taken private this year or will be—CarrAmerica and **Trizec Properties** [TRZ], for instance—are big components of the indexes, so just that fact alone has helped the averages.

Companies like Mills haven't given the industry a black eye?

In the old days, I apologized for Rockefeller Center for about 10 years because it was a lousy deal for the shareholders, and when it blew up, whenever REITs were mentioned, people would say, 'How about Rockefeller Center?' Well, that was the one everyone lost money in, and they overlooked the hundred that made money for investors. Mills is probably the only REIT that investors lost serious money in this year.

Do you expect to be apologizing for Mills for the next 10 years?

I'm hoping six months will do.

There's no way to salvage it?

It turns out that their obligations to complete projects like Xanadu—a major retail and entertainment complex in the New Jersey Meadowlands—and other projects they are involved in are more than the company could manage. Cost overruns directly reduced the equity value of this company. It's the typical story of a failed real-estate enterprise: good real estate but too much leverage. They overexpanded and were too ambitious.

Which area of REITs are you now most excited about?

We're very excited about the international side. There has been an acceleration of capital going into the international side. We have lots more competitors, as many of the domestic REIT investors are looking at international.

There is a very large market capitalization outside of the U.S. To give you an idea of the relative numbers, in the U.S., the market cap of real-estate companies is about $400 billion. In Europe it is about $200 billion, and in Asia it is about $350

billion. That's about $550 billion of market cap of publicly traded real-estate companies outside the U.S., a very rich universe of companies to choose from.

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FUND (TICKER)	STYLE	EXPENSES (% OF ASSETS)	% TOTAL RETURN ONE YEAR	% TOTAL RETURN FIVE YEARS[1]	MINIMUM INITIAL INVESTMENT	COMMENTS
→ SPECIALTY						
Cohen & Steers Realty (CSRSX)	Real Estate	0.97	36.0	25.6	10,000	A diversified portfolio of high-quality REIT stocks

NOTES: As of Dec. 15. [1] Annualized SOURCE: Morningstar

Sometimes you feel the biggest regrets when everything is going right. Stock funds have delivered solid returns for four years in a row, the Dow Jones industrial average has broken new records, and your portfolio has been growing nicely. It's all good, but...darn, if only you'd had more money last year in emerging markets (up 29% on average) or real estate funds (up 33%). Now your 12% or 15% return looks, well, kind of lousy.

Get over it. Obsessing over performance numbers is exactly the wrong way to build an investment portfolio. You'll feel a lot better—and become a better investor—if you accept this inconvenient truth: Trying to predict which funds will deliver the best short-term returns is futile. Funds that zoom to the top of the charts often get there because either their area of the market is hot or their managers are taking huge risks. History suggests that the place to look for them next year is the bottom of the rankings.

That's why MONEY's list of recommended funds is not about aiming for the highest short-term returns. Our lineup is designed to let you build a well-balanced portfolio that will help you reach your most important financial goals, like putting your kids through college, starting a business or achieving a comfortable retirement.

To identify funds that deserve a spot on our list, we focus on criteria that have real predictive value: low expenses, a strong record for putting shareholder interests first and a consistent investment strategy. A fund that meets our standards typically ends up delivering above-average returns—two-thirds of the actively-managed funds on our list posted returns that ranked in the top half of their category last year, and nearly 90% did so over five years.

Our roster includes a range of actively managed stock, bond and specialty portfolios, as well as a full complement of low-cost index and exchange-traded funds. Or you can put your investments on cruise control with one of our target-date retirement portfolios, which automatically shift their asset mix to become more conservative as you get older.

This year we added six funds (and dropped one) to what had been the MONEY 65. That allowed us to include several funds that can provide you with more diversification—including investments in real estate, emerging markets stocks and commodities. It also let us include a few funds run by talented managers who don't fit into standard fund categories because they invest in companies of all sizes.

THE MONEY 70

How We Pick 'Em

MONEY has long preached that the core of most people's portfolios should be in index funds. Their low costs and ease of use make them hard to beat. To select index funds for the MONEY 70, we sought portfolios with ultralow expenses (so your return is as close as possible to the return of the market segment the fund tracks) and focused on companies with strong indexing track records. That sounds like a job description for Vanguard, and that fund group dominates our index roster. Still, Fidelity's index funds are highly competitive, and two of its entries make the grade. We took the same approach with our ETFs—here Barclays iShares rules our list, along with Vanguard.

But we also know that many investors want a shot at beating the market or prefer to invest more conservatively than index funds alone permit. That's why the 70 includes actively managed funds. In picking them, we ruled out those that hold less than $100 million in assets, since their records are often a poor indication of how they'll operate as they grow. Our funds must be managed by the same person or team for at least three years, although we may include a new fund run by managers with established records; and managers must follow a well-defined investing strategy. We winnowed out funds with expenses that are above average for their category, as well as those that trade excessively, which racks up performance-sapping costs.

When it comes to performance, we looked for funds that rank in the top half of their category over five years. But we'll keep lagging funds that are already on our list if the underperformance is simply attributable to the manager's stock-picking style being out of favor, not to poor investing or other problems. That's the case with American Funds American Mutual, FAM Value, Fidelity Dividend Growth, FPA New Income and Madison Mosaic Investors, which now have mediocre five-year records. You don't want to dump a fund just as the manager's style comes back in vogue, and we believe these pros can do well again. But we'll keep an eye on them.

Finally, in order to make sure that shareholder interests come first, we eliminated funds that received a stewardship grade of less than B from Morningstar. The grades are based on a fund's status with regulators; the quality of its board of directors; expenses; manager incentives; and corporate culture. If Morningstar doesn't grade a fund, we used our judgment.

<u>The following information provided by Cohen & Steers Realty</u>

Average annual total return performance information (periods ended December 31, 2006) for Cohen & Steers Realty Shares, Inc. is as follows:

One year	Three years	Five years	Ten Years
37.13%	29.70%	25.37%	15.50%

The performance data quoted represents past performance. Past performance is no guarantee of future results. The investment and the principal value of an investment will fluctuate and shares, if redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Total returns of the fund current to the most recent month-end can be obtained by visiting our website at coheandsteers.com. Performance quoted includes changes in share price and reinvestment of all distributions.

Please consider the investment objectives, risks, charges and expenses of the fund carefully before investing. A prospectus containing this and other information may be obtained by calling 1.800.330.7348 or visiting cohenandsteers.com. Please read the prospectus carefully before investing.

There are special risks associated with investing in real estate securities. These risks are similar to those of investing directly in real estate and your investment in Cohen & Steers Realty Shares will be closely linked to the performance of the real estate markets. Property values may fall for example due to increasing vacancies or declining rents that occur during difficult real estate market periods. Many real estate companies finance their activities by borrowing or issuing fixed income securities and this leverage could increase investment risk, especially in periods of rising interest rates. Performance during certain periods reflects strong industry and/or individual security performance that may not be repeated.

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OCTOBER 2006 | ...COM

SmartMoney

THE WALL STREET JOURNAL MAGAZINE

SPECIAL ARTICLE REPRINT FEATURING COHEN & STEERS

Fund Watch

Good Parents Make For Good Offspring

When a pedigreed fund shop opens a new fund with a proven manager, it's worth a look.

WE'RE USUALLY pretty skeptical when it comes to new funds, and for good reason. For starters, without a track record it's hard to know whether a fund's strategy can be successfully executed. Then there's the perennial issue of fees; small funds can incur big administrative costs and the corresponding high fees charged to investors that won't be lowered until assets rise.

But sometimes there's a happy confluence of characteristics—a seasoned manager, a fund shop with a proven investing strategy—that changes our view. Of the 500 new funds launched in the past year or so, we've found five worth your attention. True, most are a little pricier than the funds we usually favor, but each of these fund companies typically offers funds with lower-than-average expense ratios and will likely lower the fees on its new funds once assets begin to grow.

ALL IN THE FAMILY

Fund (Ticker)	Inception Date	Return Since Inception	Expense Ratio
Amer. Century Legacy Multi Cap (ACMNX)	05/31/06	–3.0%	1.15%
Cohen & Steers Dividend Value (DVFAX)	08/31/05	10.1	1.00
Keeley All Cap Value (KACVX)	06/14/06	–0.4	2.00
Oakmark Global Select (NA*)	NA*	NA*	1.75
Wintergreen (WGRNX)	10/17/05	9.2	1.95

Returns as of 08/11/06. *Still in registration. NA=Not applicable. DATA: BLOOMBERG; THE FUND COMPANIES

The 14-month-old Cohen & Steers Dividend Value fund is the latest entry from a shop known for its real estate funds—and therefore well-schooled in picking winning high-yielding securities. Manager Richard Helm beat 95 percent of his peers when he ran the WM Equity Income fund from 2001 to 2005, according to Morningstar. Helm uses price/book and price/earnings ratios, along with a dividend screen to find companies with yields twice the rate of inflation. His top holdings are currently skewed toward financial companies like Wells Fargo and Bank of America; Helm expects financials to outperform now that interest-rate hikes have slowed, if not ended. The fund has returned 10 percent since inception, versus a 6 percent rise in the S&P 500. That figure doesn't include its hefty 4.5 percent sales charge, though—$450 for every $10,000 invested.

Oakmark's well-known value manager Bill Nygren shares the stock-picking duties on the brand-new Global Select fund. Nygren will keep to the domestic side of the portfolio, while David Herro, a 14-year veteran of two of Oakmark's international funds, will cover the foreign stocks. Global Select will hold some 20 stocks that have high insider ownership, predictable earnings growth and strong free cash flows. The Wintergreen Fund also scours the globe for value stocks. Manager David Winters previously ran $35 billion for Franklin Mutual Advisors. The fund currently owns an eclectic mix of companies like Japan Tobacco, paper company Weyerhaeuser and skin care outfit Elizabeth Arden.

Looking for a go-anywhere fund for today's tricky market? Try Keeley All Cap Value. John Keeley and his three sons made their reputation buying small-company stocks. Here, they'll use the same approach—find unloved corporate spinoffs, restructuring plays or stocks trading at steep discounts to book value—that placed the Keeley Small Cap Value fund in the top 2 percent of its category over the past 10 years.

Similarly, American Century has a strong track record for its contrarian picks. Its Legacy Multi Cap fund uses earnings, revenue growth and price momentum to choose a wide array of stocks. Current top holdings include Chevron, clothing maker VF Corp. and Republic Airways.

–Rob Wherry

Average annual total return performance information for the one-year and since inception period ended September 30, 2006 for Cohen & Steers Dividend Value Fund – Class A shares is as follows:

	1 year	Since Inception*
Excluding Sales Charge	13.21%	14.99%
Including Sales Charge**	8.10%	9.07%

* Inception date – 8/31/05

** Maximum 4.5% sales charge; returns for other share classes will differ due to differing expense structures and sales charges. Class C shares are subject to a maximum CDSC of 1% if shares are redeemed within on year of purchases.

Performance data quoted represent past performance, which is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. Total returns for the Fund, current to the most recent month-end, can be obtained by visiting cohenandsteers.com. The performance data quoted include changes in net asset value and reinvestment of dividends and capital gains.

There are special risks associated with investing in the Fund. The value of common stocks and other equity securities will fluctuate in response to developments concerning the company, political and regulatory circumstances, the stock market, and the economy. In the short-term, stock prices can fluctuate dramatically in response to these developments. Different parts of the market and different types of equity securities can react differently to these developments. These developments can affect a single company, all companies within the same industry, economic sector or geographic region, or the stock market as a whole. Dividend-paying stocks may be particularly sensitive to changes in market interest rates, and prices may decline as rates rise. As a nondiversified investment company, the fund may invest in fewer individual companies and is therefore more susceptible to large price fluctuations and may be subject to a greater risk of loss. The Fund may also invest in foreign securities and securities issued by REITs, which involve additional risks.

Please consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other information may be obtained by calling 800-330-7348 or visiting cohenandsteers.com and requesting a prospectus. Please read the prospectus carefully before investing.

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Forbes

October 16, 2006

Money&Investing

Asia's REIT Push

If you are tiring of real estate in Florida, New York and California, you might want to get a piece of an Asian office building | By Russell Flannery

UNDER THE SKIES OF ASIA, ONE GLEAMING OFFICE tower after another is rising. Scores of giant shopping malls are replacing small shops that stood for generations. New factories dot the land. And despite the building spree, vacancies are plummeting in commercial structures, both old and new, from Tokyo to Singapore to Hong Kong, as landlords are besieged by prospective new tenants.

The owners of these sought-after edifices are governments and family-run corporations. Now, with the region's economic explosion, the owners want cash with a view to shunting capital into high-growth prospects. So they are selling off their real estate.

A lot of the buyers are entities familiar to Western investors but new to the Far East: real estate investment trusts, pools of capital with publicly traded shares that pay decent dividends. The homegrown Asian REITs, modeled on U.S. and Australian ones, began appearing only five years ago. While the count varies, there are at least 70 of them today. UBS projects that the total market capitalization of REITs in Asia, not including Japan, will increase to $75 billion in 2010 from $7 billion at the end of last year. "It's about the growth," says Joseph M. Harvey, who oversees Cohen & Steers' international realty fund.

This is an intriguing opportunity. REITs by their nature must give shareholders most of their income. Asian REITs offer only mediocre yields *(see table)*, but they should participate in Asian economic growth, which is expected to hit 7.3% in 2006, compared with a projected 3.6% for the U.S., says Citigroup. As in the U.S., in the Far East a REIT can also be a good hedge against inflation. And if the dollar weakens against Asian currencies, which it has in recent history, the bounty of Asian REIT dividends will be fatter for U.S. investors.

Should Americans buy stock in Asian REITs? The answer is a qualified yes. Recognize that you are actually betting on Asia's future. If another meltdown to rival that of 1998 occurs, real estate and every other Far Eastern investment will suffer. If that doesn't happen, the REITs stand to do much better than they have up to now. We have assembled a list of promising trusts from the three best Asian real estate markets: Hong Kong, Japan and Singapore.

Many of these REITs are in their infancy, some having gone public just a few months ago, meaning that they have skimpy records. With the exception of Singapore's fast-growing Ascendas and Suntec, the REITs on our list are gaining in the middle single digits. We define earnings here by the gauge of CBRE Global Real Estate Securities, adjusted funds from operations, which the firm defines as net income plus depreciation and amortization less recurring capital spending, such as replacing boilers and roofs. With CBRE's help we measured annualized AFFO growth from 2005 through 2007 (projected).

Ascendas' impressive 15.7% spurt stems from its diverse mix of offices, factories and warehouses in solid, fast-expanding Singapore. Hong Kong's Champion REIT, which in May went public with an offering that was largely oversubscribed, has only one property in its portfolio, the landmark Citibank Plaza. The stock has since plunged as investors were spooked by higher interest rates globally and woke up to Champion's lack of diversity. As Champion adds other holdings and raises rents when leases expire, the estimated 3.2% AFFO growth should move up, and the stock price should, too.

Asian REITs have plenty of experienced real estate managers with backgrounds working for the region's tycoons, who traditionally have held the bulk of the real estate. And banks with operations in Asia are rife with seasoned talent, as well. Cohen & Steers lured its Asia chief from a job as head of property research at HSBC.

Asian REITs are not sold on American exchanges, hence you must buy them in their homelands through large brokerages, such as Interactive Brokers and E-Trade. That will entail a percentage point or two in fees above what you'd pay for a domestic trade.

Among U.S. mutual funds specializing in Asian real estate, the pickings are slender. Cohen & Steers' new Asia-targeted fund, Asia

Pacific Realty, is one possibility that requires much faith. It began operations in July, which doesn't give investors much to go on. Asia Pacific has announced no purchases so far, but manager Harvey says it is fully invested. The fund's fees, at 1.8% of assets annually, are not out of line with typically pricey overseas funds; alas, the portfolio also has an onerous 4.5% load.

REITs are cropping up all over Asia. Real estate pros caution that the best three markets are the most stable ones: Japan, the world's second-largest economy; Hong Kong, with its red-hot office market feeding off the mainland's growth; and Singapore, benefiting from an influx of Mideast money and close ties to booming India. The Chinese mainland is a bit wild and woolly for Westerners used to the rule of law and the sanctity of contracts, and new Chinese rules may discourage the transfer of properties to overseas REITs.

Promising Properties

Many of these sizable Asian REITs don't now offer stirring earnings growth or yields. The bet is that, with the region's economic growth, they too will soar.

REIT	PRICE	YIELD	EARNINGS GROWTH[1]
HONG KONG			
Champion REIT	$0.50	7.1%	3.2%
GZI REIT	0.42	6.3	4.0
Link REIT	2.05	1.4	3.9
Prosperity REIT	0.25	6.7	3.5
JAPAN			
Japan Real Estate Investment	8,700	3.1	4.5
Japan Retail Fund Investment	7,378	3.7	3.0
Nippon Building Fund	10,151	3.1	4.2
Nomura Real Estate Office Fund	8,086	3.0	4.1
SINGAPORE			
Ascendas REIT	1.36	5.7	15.7
CapitaCommercial Trust	1.31	4.0	7.1
CapitaMall Trust Management	1.58	4.6	6.7
Fortune REIT	0.76	5.9	4.1
Suntec REIT	0.90	5.2	17.8

Prices as of Sept. 26. All figures in U.S. dollars. [1]Estimated annualized change in adjusted funds from operations (net income plus depreciation and amortization, less recurring capital expenditures) from 2005 through 2007. *Sources: CBRE Global Real Estate Securities; Reuters Fundamentals via FactSet Research Systems.*

Japan led the way in getting Asia's REIT market off the ground in September 2001, with the listing of the Nippon Building Fund and Japan Real Estate Investment. These things tend to sell for huge, Berkshire Hathaway-like prices. Nippon Building takes the prize at $10,000 per share. The Japanese trusts have shown solid appreciation this decade, as the nation's real estate finally staggered to its feet after a long slump. Their earning power—the ones in our list are in the low single digits—should improve as Japan's economic recovery forges ahead. Japan has 39 REITs in all.

Farther south, Hong Kong billionaire Li Ka-shing helped to initiate the REIT market in Singapore with the listing of Suntec, centered on one giant retail-office complex. With 12 REITs, Singapore is the second most active today in Asia.

Yields in Singapore tend to be higher than elsewhere in Asia. They also tend to be stable because many REITs are linked to government institutions, which aren't likely to make risky bets. Ascendas, or A-REIT, is a joint venture between the Ascendas Group, owned by Singapore's trade ministry, and Macquarie, the Australian investment firm. A-REIT started out in November 2002 with 8 properties worth $340 million (in U.S. currency); it has since grown to 66 properties worth $1.8 billion.

Hong Kong, hooked into China's enormous economy, is where the latest REIT action is. Initial excitement about new launches has waned, sending prices down. And, aside from price gyrations, the knotty legal environment of Hong Kong has brewed a lot of frustration. Take its largest trust, Link REIT, whose 180 properties (mainly shopping malls and parking garages) were once owned by the Hong Kong Housing Authority. Public housing tenants, fearing the loss of subsidies from the commercial rents, sued and succeeded in postponing its initial offering for a year until 2005. The challenge at Link now is to cut bloated government-style costs that have kept its yield down at 1.4%. Link says it will pay out 3.9% in the coming year.

Still, the future looks decent for Hong Kong REITs. Prosperity REIT has seven commercial buildings in the city. Leases on half of the space expire this year; renewals are expected to boost rental income by 40%. That should fatten earnings nicely. **F**

The New York Times
SundayBusiness
SUNDAY, JANUARY 7, 2007

SQUARE FEET

A Coming of Age For the Global Real Estate Market

By VIVIAN MARINO

FOR investors who have been missing out on the prolonged run-up in the shares of real estate investment trusts, or maybe jumped in only recently, the end may not be in sight: there are growing opportunities overseas. Some industry experts say that this is an opportune time to make a move into these nascent markets.

"We don't think the U.S. REIT market is played out; it will continue its upward growth," said Steven Carroll, co-chief investment officer at CB Richard Ellis Global Real Estate Securities. "But we think the growth will escalate at a much more rapid pace overseas as more markets become securitized."

Last week, Britain became the latest country to offer REITs. The corporate structure gives real estate companies favorable tax treatment in exchange for disbursing most of their income to shareholders. The addition of Britain brings to 17 the number of countries with public REIT markets, according to UBS Investment Bank; there are also about a dozen other countries with legislation in place or under consideration to create REITs, though with no public market yet. Germany is expected to offer REITs this spring.

In 1994, only three countries outside the United States allowed REITs, according to UBS.

While the United States is still the world's dominant REIT market, with around $395 billion in market capitalization out of an estimated worldwide total of $608 billion, last year's spate of announced mergers and acquisitions is steadily reducing the number of publicly traded shares.

A recent report by Ernst & Young suggests that the rest of the globe is poised to surpass the United States by 2008 in terms of total capitalization. Much of the new growth, it says, is being driven by REIT markets in Australia, France, Japan, Canada, the Netherlands, Singapore and Hong Kong.

The report noted, meanwhile, that some of the lesser-known REIT markets like South Africa have had stellar performances. In fact, a global real estate index offered by the European Public Real Estate Association, the National Association of Real Estate Investment Trusts and FTSE had a 42.35 percent return last year. The domestic REIT market, as measured by the National Association of Real Estate Investment Trusts, rose 34.35 percent in 2006, the seventh consecutive year that REITs outperformed the overall stock market.

Many industry analysts favor office markets in London and Tokyo.

"If you're an investor, it may well be a great opportunity to diversify," said Dale Anne Reiss, the global leader of Ernst & Young's real estate practice. "You can really play the real estate market more effectively now."

She added that shares in some of the newer markets might be undervalued right now because of "pricing inefficiencies" in the underlying assets of some REITs.

Ralph L. Block, author of "Investing in REITs" (Bloomberg Press, 2006) and the publisher of The Essential REIT, a newsletter, agreed that "there are some significant pockets of opportunity." But he warned that "when someone finds a great opportunity, it usually means that opportunity gets recognized pretty quickly."

Big investors are already on the lookout. Nearly two-thirds of real estate professionals surveyed last year by the international law firm Bryan Cave said they planned to invest abroad within the next 12 months. And institutional investors — which sank dizzying amounts of money into domestic REITs last year — are also increasing their exposure to international real estate.

Among those increasing allocations into global REITs is the California Public Employees' Retirement System, known as Calpers, the largest public pension fund with more than $200 billion in assets.

Smaller investors are also finding more opportunities to branch out. In addition to the expanding number of foreign real estate stocks that can be bought through brokers, there are more mutual funds focused on international property.

At the same time, domestic REITs are acquiring more foreign property or forging partnerships. They include companies like **ProLogis**, the **AMB Property Corporation** and the **Simon Property Group**.

Some of the funds rolled out last year include the **Franklin Global REIT** fund, **Cohen & Steers Asia Pacific Realty Shares** and the **ING International Real Estate** fund. The first foreign real estate index fund — the **Northern Global Real Estate Index** fund from the Northern Trust Corporation — also made its debut, along with the first global real estate exchange-traded fund: the **streetTracks International Real Estate E.T.F.**, from State Street Global Advisors.

Many industry analysts are bullish about the office markets in the West End of London and in central Tokyo, which, they say, have a constrained supply of space.

Jeremy Anagnos, the co-chairman

with Mr. Carroll of CB Richard Ellis Global Real Estate Securities, says that the Japanese market in particular is primed to rally after "coming out of its real estate recession that has lasted for 15 years."

He says that Germany, Europe's largest economy, offers potential opportunities, too. By many accounts, that country is set to roll into the public markets more than $100 billion in properties.

But the foreign markets are also being supported by an aging population that is looking increasingly for higher-yielding fixed-income investments, Mr. Anagnos added, and REITs can help to satisfy that demand. Many individuals, particularly in Asia, were unable to invest in commercial real estate until REITs came along, he said.

Changes in the way some foreign corporations operate are also helping to create more opportunities for domestic REITs, some experts say. ProLogis, in particular, has had a flurry of activity, including large acquisitions in Britain and the initial public offering of its ProLogis European Properties division. The company is one of the world's largest managers and developers of distribution centers.

"When we started moving into Europe, the original thought was to serve our U.S. customers that had an international requirement," said Jeffrey H. Schwartz, the chief executive of ProLogis. "But it has become much more synergistic and powerful than that."

More business, he said, is now coming from companies in Europe and Asia looking to streamline their operations.

"They used to want to see how big they could become without concern about return on equity," Mr. Schwartz said. "Now they are looking at how they can create shareholder value, and part of doing that is to become less asset-intensive."

More than 40 percent of the company's $25.3 billion in real estate assets under management are outside North America, he said, and in Japan, the average occupancy rate for storage facilities is 99.8 percent, versus 95 percent in the United States.

Mr. Schwartz says he sees opportunities in Central European countries like Poland, the Czech Republic and Hungary. His next big focus, though, is China. Last year, ProLogis announced that it was developing an industrial park in Beijing to serve as the primary logistics and distribution center for the 2008 Olympics.

Ms. Reiss, meanwhile, says she believes that it won't be long before multinational assets become commonplace in real estate companies.

"It is quite conceivable," she said, "that you will see assets in Mumbai and Milwaukee and Moscow and Malaysia — all in the same REIT."

Please consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. A prospectus containing this and other information may be obtained from your financial advisor or by calling 800•330•7348 or visiting cohenandsteers.com. Please read the prospectus carefully before investing.

The views and opinions herein are as of the date of publication and are subject to change. The material represents an assessment of the market environment at a specific point in time, should not be relied on as investment advice and is not intended to predict or depict performance of any investment.

There are special risks associated with investing in Cohen & Steers Asia Pacific Realty Shares because of its focus on REITs and other Asia Pacific real estate securities. The value of common stocks and other equity securities will fluctuate in response to developments concerning a company, political and regulatory circumstances, as well as the stock markets, interest rate changes and changes in the local economies. In the short-term, stock prices can fluctuate dramatically in response to these developments. International real estate securities are subject to particular risks from currency fluctuations, reduced liquidity, political and economic uncertainties, and differences in accounting standards. These risks are enhanced because of the Fund's focus on a specific region in which the local economies are more closely connected. As a nondiversified investment company, the Fund may invest in fewer individual companies and is therefore more susceptible to large price fluctuations and may be subject to a greater risk of loss.

Cohen & Steers Securities, LLC, is the distributor of Cohen & Steers Asia Pacific Realty Shares.

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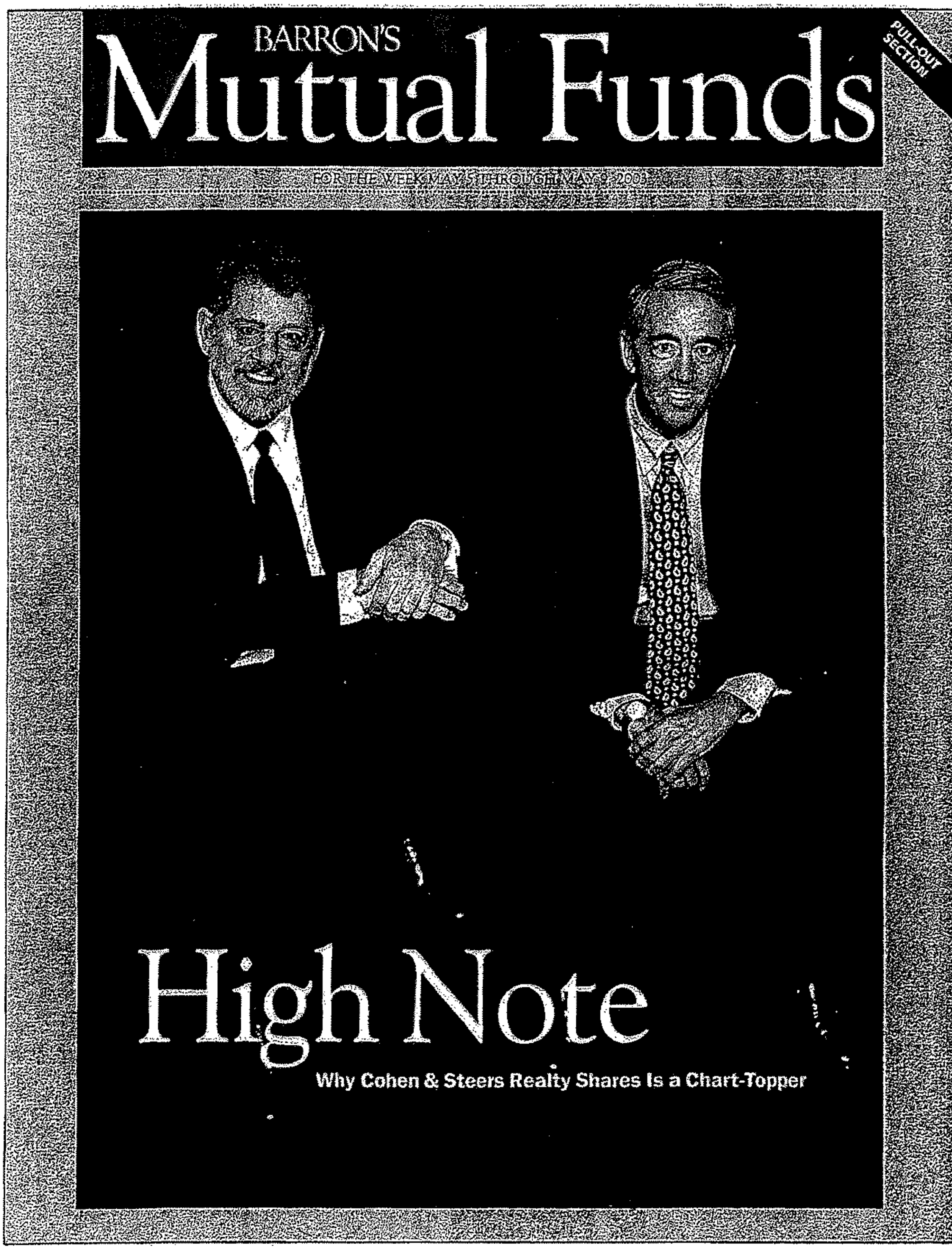
Reprinted from BARRON'S

May 12, 2003



John Abbott for Barron's

(over please)

Catchy Tune

A music man and his partner harmonize on real estate

BY JACK WILLOUGHBY

MARTIN COHEN, THE co-founder of Cohen & Steers, knows that the past three years have given stock-market investors little to sing about. But Cohen, an avid guitarist, has been teaching them an all-new melody.

For more than a decade, Cohen and his partner, Robert Steers, have aimed to establish real-estate securities as the fourth main asset class—alongside equities, debt and cash—for institutional and retail investors. In 1986, they founded New York-based Cohen & Steers, which now manages $7 billion in open and closed-end mutual funds that invest in real estate investment trusts, or REITs. Shares of REITs trade on the major exchanges but, unlike normal stocks, are required by law to distribute 90% of their annual profits as dividends.

The empire's centerpiece is **Cohen & Steers Realty Shares**, a $1.3 billion open-end fund that holds about 50 REITs. Over the past 10 years, it has posted an annualized tax-adjusted return of 7.42%, topping all real-estate funds, according to fund-tracker Morningstar. Although the fund has been outperformed by more aggressive rivals over shorter spans, it has still managed to return 7.98% so far this year, topping the 6.3% gain of the S&P 500.

These are heady times for Cohen & Steers because REITs—companies that buy, sell and operate properties of all types—are one of the few types of investments that have delivered strong returns over the past three years. Net inflows into open-end REIT mutual funds hit $3.4 billion in 2002, and another $2.3 billion went into closed-end funds—the highest volumes since 1998. So far this year, $871 million has flowed into these types of investments.

"Obviously in a period of low inflation and low interest rates, a 7% yield attracts a lot of attention," says Cohen, 54. Adds Steers, 50, "It's ironic that it only really took hold lately when all the alternatives had been eliminated."

This collaboration started more than 25 years ago, years when the two men bonded as junior analysts at Citibank. Cohen, a native of Brooklyn who had attended City College and received his MBA at New York University, followed hotels and entertainment firms. Steers, who followed electronics manufacturers, came from Rye, N.Y., and had gone to Georgetown University and later George Washington University for his MBA.

After a stint at National Securities Research, a firm later absorbed by Phoenix Home Life Mutual Insurance, the two set up their own shop in 1986. "We've always believed that real estate has returns that will help stabilize any long-term portfolio," says Cohen. "But we've had a difficult time convincing others. Real estate and REITS do not correlate with the stock market and bonds, yet the returns have been better than both."

One of the crowning moments for the pair came when the first REIT joined the Standard & Poor's 500: **Equity Office Properties** became part of the index in October 2001. Now there are five.

The move signaled that the REITs had become part of the landscape for institutional investors. "For years, institutions were reluctant to learn the new language of this fourth asset class," says Steers. "But when the S&P included it in the index, it meant they accepted the structure. Now institutions have to learn."

What sets Cohen & Steers apart is the firm's understanding of both real estate and the retail fund business. At a time when real-estate securities were left to Wall Street firms' institutional trading desks, Cohen & Steers were experimenting with a retail product. "They've really built an

AT A GLANCE

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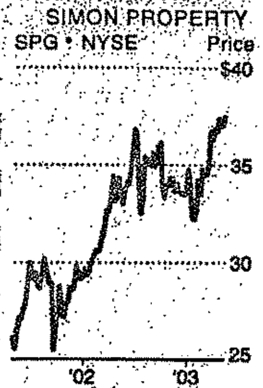
TOP 10 HOLDINGS

Company	Percentage Of Portfolio*
Vornado Realty Trust	7.0%
Boston Properties	6.2
Prologis	5.7
Equity Office Properties	5.3
Archstone Smith	4.6
Simon Property Group	4.5
Rouse Company	4.5
AvalonBay Communities	4.4
Brookfield Properties	4.1
Arden Realty	3.9
TOTAL	**50.2%**

*as of 4/30



Source: Cohen & Steers Capital Management

excellent business by focusing on the retail investor," says Jon Fosheim, co-founder of Green Street Advisors, which does independent research for Cohen & Steers. "There aren't many companies whose closed-end offerings trade above their net asset values. Cohen & Steers funds often do."

Even so, the REITs haven't completely escaped the effects of the weakening economy. Real-estate investment trusts specializing in offices, for instance, have been hit hard. And the slowdown in travel has taken a toll on hotel REITs.

Often contrarian, Realty Shares has been on the lookout for buying opportunities. For example, it has loaded up on shares of **Crescent Real Estate Equities,** a Southwestern REIT with offices and hotels that cut its annual dividend in 2001 to $1.50 from $2.20. Realty Shares is betting that Crescent can generate enough profits to avoid further dividend cuts for the next year or so. Right now, Crescent trades at $14.60 a share, down from $24 in August 2001 and 25% below break-up value. "It's more of an asset play than an income play," says Cohen. "There are plenty of solid assets to back up the dividend."

Steers thinks 2003 will see some dividend reductions throughout the market, but no more than last year. The great majority of REITS will hold or increase their dividend rates, he predicts. (One caveat: The dividend tax relief under discussion wouldn't apply to REITs.)

In another corner, Realty Shares is betting big on developments in corporate governance that could ultimately unlock hidden value. A federal court has issued a ruling that prevents the Taubman family from using their large stake to thwart **Simon Property's** and **Westfield America's** $1.68 billion hostile takeover bid for **Taubman Centers.** If Simon prevails, other REITs could possibly be susceptible to hostile offers.

"We spent months investigating the situation, and wound up in the Simon camp almost by default," says Steers, explaining why Simon now accounts for 4.5% of his firm's holdings. "The Taubman management did not give us a satisfactory plan as to how they were going to deliver comparable value."

Cohen & Steers uses a kick-the-tires approach to analyzing real-estate securities. Analysts look for discount from net asset value, potential for rapid growth, strong management and diversified regional exposure.

Right now, Realty Shares is heavily invested in high-quality office buildings, shopping centers and hotels—all in the belief the economy will improve in the second half of this year and travel will pick up.

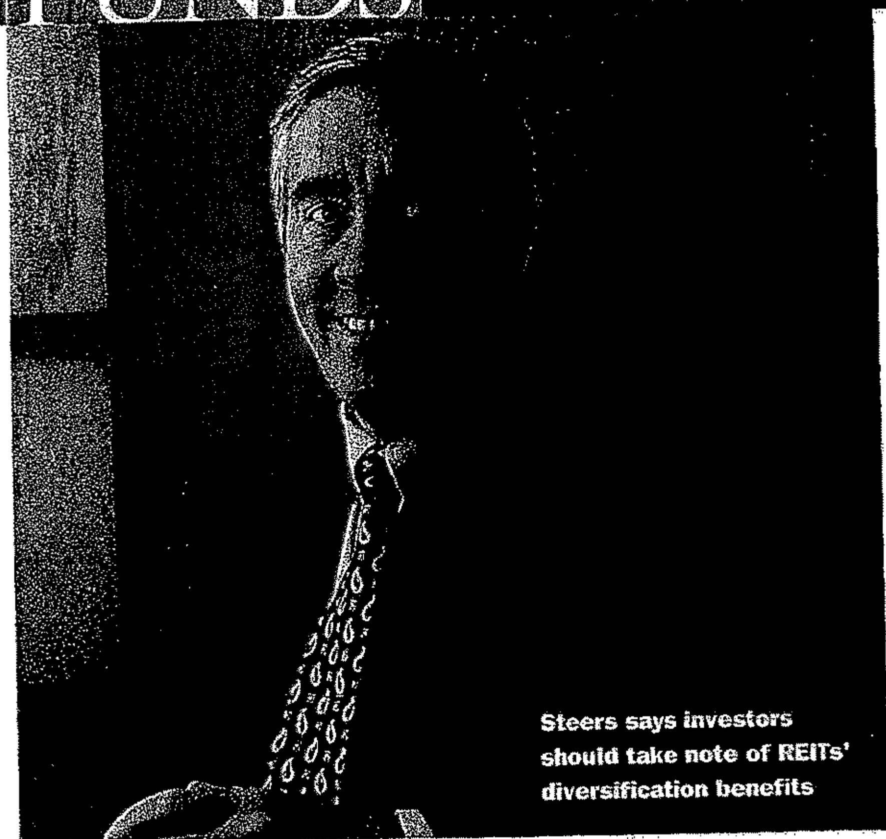
The fund's long-term perspective, however, sometimes has proven no match for newer, more aggressive funds.

Over the past three years, for instance, Realty Shares beat only 30% of the funds in its category, despite solid annualized returns of 11.21%. Some investors looking for short-term gains have headed for the doors, producing at least a small net outflow.

"I'm a little concerned that they've lagged these past few years," says Dan Culloton, an analyst at Morningstar. "But this fund has the experience, the research and the depth of management that make it a sound choice." And given the strong, longer-term results, Cohen & Steers isn't about to change its ways.

Cohen makes sure to refresh himself amid a frenetic New York existence, often by playing classical guitar. He started when he turned 40, taking lessons every Wednesday night. He's even done a few recitals at his temple. "I love the sense of accomplishment when I learn a new piece," he says.

If he and Steers keep up their investment performance, investors should be enjoying the music for years to come. ■



Steers says investors should take note of REITs' diversification benefits

PHOTOGRAPH BY DARRYL ESTRINE

Bob Steers

COHEN & STEERS REALTY SHARES

Don't tell Bob Steers, co-chairman and co-CEO of Cohen & Steers, and senior portfolio manager, that the 2003 tax law changes (which didn't include dividends from real estate investment trusts, or REITs, in the 15% bracket) were bad for REITs. He'll tell you that the tax cuts spotlighted dividend payers in general, and REITs will reap the rewards of greater exposure. Another trend helping these investments is that REITs are no longer just a U.S. phenomenon, says Steers.

"REITs are going global, with the structure having recently been adopted in Japan, France, and Australia." The U.K. and Germany may not be far behind. Steers, whose company recently went public, said that he anticipates his firm moving into the international space in the first quarter of 2005. He tells writer Jonathan Heller, CFA, why investors should be considering REITs as part of their portfolios now.

On Investing: What should investors know about REITs that they may not be aware of?

Steers: REITs are not very much different from companies in any other industry. Instead of making computers or some other product, they're required to own income-producing real estate, or own or develop properties. REITs don't pay corporate taxes but are required to pay out most of their taxable income in the form of dividends. Even after the payouts, many REITs have a large chunk of free cash flow that they are able to retain.

I would say, also, that when the new, 15% dividend tax bill was passed and REITs were not included in that, most pundits said, aw, gee, that's it for REITs. Not surprisingly, we took the opposite view. We thought it was a huge positive for REITs—the change in tax rates, coupled with the fact that baby boomers are approaching retirement in a low-return environment, meant that the emphasis was going to be on dividends. Gone was the bubble mentality, where all you want is high beta, capital appreciation, and so on.

On Investing: Historically, one of the great benefits in adding REITs to a portfolio has been their low correlation to other asset classes. Are there conditions under which you would expect correlations to rise?

Steers: During this modern REIT era, which started in the early to mid-1990s, when the companies that currently dominate the industry went public, the correlations have been low and declining. The only way I could see correlations beginning to rise is that REITs are now starting to be included in some of the broader equity indexes. It's possible that 10 years from now REITs could be 5% or more of the S&P 500 and so, by definition, the correlation would have to rise somewhat.

On Investing: What are the most important ratios or metrics you use when evaluating companies to include in your portfolio?

Steers: We have a highly quant-oriented statistical model and two metrics that rank all of our companies against one another every day. The first is simply price-to-net-asset value. Our analysts come up with a net real estate value per share for each company that we follow. The second metric is multiple-to-growth ratios. We use the price-to-cash-flow multiple relative to its long-term growth rate. What we have found is both of those valua-

tion metrics, individually, have been predictive of stock performance. And if you use them together, we believe the combination can be a very powerful portfolio management tool.

On Investing: You are actually calculating market values for real estate?

Steers: We're getting down to the dirt. It's a complex endeavor. It's labor-intensive. That's why we have such a large investment team, because you have to go out and walk the properties, you have to meet with brokers in the local markets to find out what prices comparable properties have sold for, and get a real idea of what things are worth.

We have to spend a lot of time with the companies themselves, and know tenant by tenant what rents they're paying, whether the rents are above or below market, if they will renew higher or lower, all of that. We tell our analysts, we don't really want to see you in your office.

On Investing: I'd expect portfolio turnover to be relatively low. Is that the case?

Steers: Yes. Fundamentals change here at a glacial pace. For us to add value as portfolio managers, we actually have to look two years out or more, because the next 12 months are clear for everyone to see.

On Investing: How will increasing interest rates affect REITs?

Steers: Well, I have two answers to that. Over the long run, the statistical correlation between REIT share prices and interest rates has been very low. (It's lower than REITs against stocks, and that goes back 10, 20 years.) REITs have about 40% to 50% debt and the overwhelming majority of that debt is long-term, fixed-rate, amortizing debt. So higher interest rates don't have a meaningful impact on the cost of capital.

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On the other hand, if interest rates are going higher, that will most likely be because the economy is strong and the job-creation engine is cranking. As a result, those important drivers of real estate fundamentals will be getting increasingly positive and cash-flow growth rates will be moving higher. Really, at the end of the day, job creation is the primary determinant of what increases occupancies, whether it's in office buildings or apartments or industrial properties. So typically, the root cause of higher interest rates tends to be the most important positive variable for real estate and REITs.

On Investing: What role or position should REITs play in the typical investor's portfolio?

Steers: Most of our clients carve out anywhere from 5% to 20% of their portfolio for real estate including REITs, and that type of allocation has been shown over time to have improved portfolio return while reducing portfolio risk.

Longer term, REITs have provided returns to investors that are in line with the equity market. But they deliver those returns uniquely, in that the investment characteristics are totally different from, say, the S&P 500.

REITs have returned about 15% over the past 10 years, with about half of that coming from dividends and the other half from price appreciation, according to NAREIT. So REITs have delivered solid returns and tremendous portfolio diversification. O

Cohen & Steers Realty Shares

AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/04

Fund (inception date)	Symbol	1YR	5YRS	10YRS	Since fund inception
Cohen & Steers Realty Shares (7/2/91)	CSRSX	38.48%	21.34%	15.23%	15.36%
NAREIT Equity Index		31.58	21.94	14.80	14.42
S&P 500 Index		10.88	-2.29	12.07	11.24

Performance quoted represents past performance, which does not guarantee future results. The investment return and principal value of an investment in the fund will fluctuate, so that an investor's shares in the fund, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. For month's-end performance information, visit www.schwab.com.

The NAREIT Equity Index is an unmanaged, market capitalization weighted index of all publicly traded equity REITs that have 75% or more of their gross invested book assets invested directly or indirectly in the equity ownership of real estate. The S&P 500 is an unmanaged index of 500 large-capitalization companies representing a variety of industries. You cannot invest directly in an index and index performance does not reflect the deduction of any fees or expenses. Because of its concentration in real estate securities, the Fund is subject to special risk considerations described in the Fund's prospectus. (0105-6296)

Investors should consider carefully information contained in the prospectus, including investment objectives, risks, charges and expenses. You can request a prospectus by calling Schwab at 800-435-4000. Please read the prospectus carefully before investing.

Since the fund focuses its investment on companies involved in the real estate sector, the fund may involve a greater degree of risk than an investment in other mutual funds with greater diversification.

International investing involves special risks such as currency fluctuation and political instability.

EXHIBIT D

WHOIS Search Results for: COHENANDSTEERS.MOBI

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Created on: 02-May-07
Expires on: 02-May-08
Last Updated on: 02-May-07

Administrative Contact:
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6104 N 4th Street
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(215) 548-6123

Technical Contact:
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Philadelphia, Pennsylvania 19120
United States
(215) 548-6123

Domain servers in listed order:
NS47.DOMAINCONTROL.COM
NS48.DOMAINCONTROL.COM

Registry Status: CLIENT DELETE PROHIBITED
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Registry Status: CLIENT UPDATE PROHIBITED

See Underlying Registry Data
Report Invalid Whois